

January 6, 2023

Future Cessation Guidance – 2021 ISDA Interest Rate Derivatives Definitions and 2006 ISDA Definitions

ABS / SC-STS guidance on the future permanent cessation of Fallback Rate (SOR)

The International Swaps and Derivatives Association, Inc. (“**ISDA**”) provides the following guidance for parties to over-the-counter derivative transactions that are affected by the publication on July 18, 2022 by ABS Benchmarks Administration Co Pte. Ltd. (“**ABS**”) and the Steering Committee for SOR & SIBOR Transition to SORA (the “**SC-STS**”) of ‘*Adjustment Spreads for the Conversion of Legacy SOR Contracts to SORA – Response to Consultation Feedback*’ (available [here](#)) relating to the future cessation of Fallback Rate (SOR) (the “**July 2022 Consultation Response**”) and the publication on December 14, 2022 by the SC-STS and ABS of ‘*Implementation of Supplementary Guidance on Adjustment Spreads for the Conversion of Legacy SOR Loans to SORA*’ (the “**December 2022 Implementation Statement**”) (available [here](#)) (together, the “**Relevant Statements**”).¹

Among other things, the July 2022 Consultation Response and the December 2022 Implementation Statement include guidance intended for market participants that are considering actively converting legacy contracts which reference the Singapore Dollar Swap Offer Rate (“**SOR**”) to reference the Singapore Overnight Rate Average (“**SORA**”) prior to SOR’s cessation. For parties that do not actively transition their legacy SOR contracts, and therefore have exposure to Fallback Rate (SOR) upon SOR’s cessation, the below guidance on the existing ISDA fallback provisions will be relevant.

ISDA is issuing this guidance in the interest of mitigating market risk and the promotion of orderly and consistent application of triggers and fallbacks by market participants. This guidance is not legal advice and market participants should consult their legal advisors as appropriate. Market participants should not rely on this guidance for any purpose but should review the contractual terms of each affected transaction in order to understand the effects of the events described above. ISDA does not assume any responsibility for this guidance and it is not intended to set a precedent. Parties are not obliged to follow this guidance. For cleared transactions and transactions executed on electronic confirmation platforms, market participants should refer to the contractual terms of the applicable clearing house or confirmation platform, as applicable.

¹ A number of other publications have been produced by SC-STS and ABS relating to the future cessation of Fallback Rate (SOR), including: (i) ‘*Timelines to cease issuance of SOR and SIBOR-linked financial products*’ (published by SC-STS on March 31, 2021 and available [here](#)); (ii) ‘*New timelines to cease issuance of SOR derivatives and SIBOR-linked financial products*’ (published by ABS and SC-STS on March 31, 2021 and available [here](#)); (iii) ‘*Consultation on Adjustment Spreads for the Conversion of Legacy SOR Contracts to SORA*’ (published by SC-STS on May 18, 2022 and available [here](#)); (iv) ‘*Consultation on Adjustment Spreads for the Transition of Legacy SOR Contracts in Wholesale Markets*’ (published by ABS, SC-STS and MAS on May 18, 2022 and available [here](#)); and (v) ‘*Industry Steering Committee Finalises the Key Settings of the MAS Recommended Rate and Supplementary Guidance for Active Transition of Legacy Wholesale Market SOR Contracts to SORA*’ (published by ABS and SC-STS on July 18, 2022 and available [here](#)).

Guidance – Cessation of Fallback Rate (SOR)

The purpose of this Guidance is:

- (1) **2021 ISDA Interest Rate Derivatives Definitions:** to describe how the terms of the 2021 ISDA Interest Rate Derivatives Definitions published by ISDA on its ‘MyLibrary’ platform as at the date of this Guidance (the “**2021 Definitions**”) apply to the Relevant Statements;
- (2) **2006 ISDA Definitions and the ISDA 2020 IBOR Fallbacks Protocol:** to describe how the terms of the 2006 ISDA Definitions published by ISDA (the “**2006 Definitions**”) and the ISDA 2020 IBOR Fallbacks Protocol (the “**2020 Fallbacks Protocol**”) apply to the Relevant Statements; and
- (3) **2018 ISDA Benchmarks Supplement:** to describe how the terms of the 2006 ISDA Definitions Benchmarks Annex to the ISDA Benchmarks Supplement (the “**ISDA Benchmarks Supplement**”) apply to the Relevant Statements.

Terms used but not defined in this Guidance have the meanings given to them in the 2021 Definitions, the 2006 Definitions, the 2020 Fallbacks Protocol or the ISDA Benchmarks Supplement, as applicable.

Cessation of USD LIBOR and the Current Position with respect to SOR

SOR is an FX swap implied interest rate benchmark that uses US dollar LIBOR as a calculation input. This means that the calculation of SOR, and therefore the calculation of any Rate Option which references SOR (which is “SGD-SOR” under the 2021 Definitions and “SGD-SOR-VWAP” under the 2006 Definitions), will be impacted by the cessation or Non-Representativeness of USD LIBOR.

Specifically, under the terms of “SGD-SOR” and “SGD-SOR-VWAP” (as applicable), the occurrence of an Index Cessation Event and subsequent Index Cessation Effective Date in respect of US dollar LIBOR will trigger the application of a fallback as a replacement for SOR. An Index Cessation Event with respect to US dollar LIBOR occurred on March 5, 2021 and it is expected that the Index Cessation Effective Date with respect to US dollar LIBOR will occur on July 3, 2023 (i.e., the first London Business Day (under the 2021 Definitions) or London Banking Day (under the 2006 Definitions) on or after July 1, 2023).²

As a result, and pursuant to the fallbacks set out in “SGD-SOR” and “SGD-SOR-VWAP” in, respectively, the 2021 Definitions and the 2006 Definitions, when an Index Cessation Effective Date occurs in respect of US dollar LIBOR on the first London Banking Day or London Business Day (as applicable) on or after July 1, 2023, Fallback Rate (SOR), which is based on actual transactions in the US dollar/Singapore dollar FX swap market and a US dollar interest rate calculated by reference to Fallback Rate (SOFR), will apply instead of SOR with effect from the first date on which SOR is required for any determination occurring on or after the first London Business Day on or after July 1, 2023.

² Under both the 2021 Definitions and the 2006 Definitions, an Index Cessation Event with respect to US dollar LIBOR occurred on March 5, 2021 by virtue of the announcement by the FCA that all LIBOR settings will either permanently cease to be published or become Non-Representative. The related Index Cessation Effective Date for all seven US dollar LIBOR settings will occur on the first London Banking Day (under the 2006 Definitions) or London Business Day (under the 2021 Definitions) on or after July 1, 2023, being the first date immediately after June 30, 2023 on which either no longer or shorter tenors will be provided, or no longer or shorter tenors will be provided which are not Non-Representative. It is expected that the first London Banking Day or London Business Day (as applicable) on or after Saturday, July 1, 2023 will be Monday, July 3, 2023, unless that day is a holiday.

Relevant Statements

The Relevant Statements describe the permanent discontinuation of Fallback Rate (SOR), providing that the prescribed fallbacks for Fallback Rate (SOR) (as described below) “will apply when Fallback Rate (SOR) is discontinued after 31 December 2024”.

Relevant Provisions under the 2021 Definitions

An Index Cessation Event under the 2021 Definitions can occur in respect of a relevant rate upon:

“a public statement or publication of information by or on behalf of the Administrator of the Applicable Benchmark announcing that it has ceased or will cease to provide the Applicable Benchmark permanently or indefinitely, provided that, at the time of the statement or publication, there is no successor administrator or provider, as applicable, that will continue to provide the Applicable Benchmark”.

Under the 2021 Definitions, an Index Cessation Effective Date will occur upon the rate no longer being provided.

Application of the 2021 Definitions to the Relevant Statements

The Relevant Statements indicate that the publication of Fallback Rate (SOR) will permanently cease at the end of 2024. The December 2022 Implementation Statement provides that “*setting of the MAS Recommended Rate (“MRR”), which is the contractual fallback rate for Fallback Rate (SOR) as set out in the relevant ISDA Documentation...will apply when Fallback Rate (SOR) is discontinued after 31 December 2024*”. As such, the December 2022 Implementation Statement, as a publication of information published jointly by ABS (as Administrator of SOR) and SC-STs, confirms that, for the purposes of the 2021 Definitions, an Index Cessation Event with respect to Fallback Rate (SOR) has occurred.³

The related Index Cessation Effective Date for each tenor of Fallback Rate (SOR) will occur on the first Singapore Banking Day (under the 2006 Definitions) or Singapore Business Day (under the 2021 Definitions) immediately following the final publication date of Fallback Rate (SOR) for that tenor. The final publication date of each tenor is the date corresponding to an Original IBOR Rate Record Day of December 31, 2024 for that tenor. As Fallback Rate (SOR) is compounded in arrears over the relevant tenor period, the final publication date of Fallback Rate (SOR) (and therefore the Index Cessation Effective Date) for each tenor will consequently differ depending on the relevant tenor and is expected to be as follows:

	Last Date of Fallback Rate (SOR) Publication ⁴		
	Original IBOR Rate Record Day	Publication Date	Index Cessation Effective Date ⁵
Overnight	Dec 31, 2024 (Tue)	Jan 2, 2025 (Thu)	Jan 3, 2025 (Fri)
1-month	Dec 31, 2024 (Tue)	Jan 28, 2025 (Tue)	Jan 31, 2025 (Fri)
3-month	Dec 31, 2024 (Tue)	Apr 1, 2025 (Tue)	Apr 2, 2025 (Wed)
6-month	Dec 31, 2024 (Tue)	Jul 1, 2025 (Tue)	Jul 2, 2025 (Wed)

³ This analysis applies equally to each version of the 2021 Definitions published by ISDA as at the date of this Guidance as no amendments have been made to the provisions relating to Fallback Rate (SOR) following the publication of version 1.0 of the 2021 Definitions.

⁴ Please note that the dates included in this table have been provided by ABS and have not been independently verified by ISDA.

⁵ This column sets out the expected Index Cessation Effective Date for each tenor based on the current Singapore business day calendar.

Pursuant to the Permanent Cessation Fallbacks for SOR in the 2021 Definitions, the MAS Recommended Rate will apply as a fallback to Fallback Rate (SOR) from the first date on which Fallback Rate (SOR) is required for any determination occurring on or after the Index Cessation Effective Date with respect to Fallback Rate (SOR).

The 2021 Definitions define the MAS Recommended Rate as the rate recommended as the replacement for Fallback Rate (SOR) by MAS or by a committee officially endorsed or convened by MAS. The December 2022 Implementation Statement confirms that the MAS Recommended Rate will be the sum of (i) compounded SORA in-arrears and (ii) an adjustment spread for the relevant tenor determined by reference to the historical median of the spread between SOR and compounded SORA in-arrears for the respective tenor, using a 5-year lookback period. According to the December 2022 Implementation Statement, the relevant adjustment spread for each tenor is ‘set’ on July 18, 2022 minus the relevant tenor (e.g. three months for the 3-month tenor) minus two Singapore business Days.

Events may arise in the future which may affect the timing of the Index Cessation Effective Date for Fallback Rate (SOR). For example, if ABS were to make a later announcement that Fallback Rate (SOR) will cease to be provided from a different date, the Index Cessation Effective Date would change accordingly.

Application of the 2006 Definitions and the 2020 Fallbacks Protocol to the Relevant Statements

Supplement 70 to the 2006 Definition, finalized on October 23, 2020 and published by ISDA and effective on January 25, 2021 (the “**IBOR Fallbacks Supplement**”) incorporates equivalent triggers and fallback provisions for SOR and Fallback Rate (SOR) to those included in the 2021 Definitions and the 2020 Fallbacks Protocol allows parties to amend their legacy documents (i.e. transactions referencing the 2006 Definitions which were entered into prior to the publication of the IBOR Fallbacks Supplement) to incorporate equivalent triggers and fallback provisions for SOR and Fallback Rate (SOR) to those included in the 2021 Definitions.⁶ As such, the application of the IBOR Fallbacks Supplement and the 2020 Fallbacks Protocol to the Relevant Statements is the same as the application of the 2021 Definitions to the Relevant Statements.

Transactions entered into prior to the publication of the IBOR Fallbacks Supplement (unless amended by the 2020 Fallbacks Protocol) will not include a reference to Fallback Rate (SOR) given such rate was not included in the 2006 Definitions prior to the publication of the IBOR Fallbacks Supplement and so the Relevant Statements will have no impact on those transactions.

Application of the ISDA Benchmarks Supplement to the Relevant Statements

For the purposes of the 2006 ISDA Definitions Benchmarks Annex to the ISDA Benchmarks Supplement, at the time of the Relevant Statements regarding the permanent discontinuation of Fallback Rate (SOR), SGD-SOR-VWAP, as referenced in transactions incorporating the terms of the IBOR Fallbacks Supplement (whether directly or pursuant to the terms of the 2020 Fallbacks Protocol), includes a reference to a concept defined or otherwise described as an “index cessation event” with respect to Fallback Rate (SOR). This means that a “Priority Fallback” as defined in Section 1.1 (*Specific provisions for certain Relevant Benchmarks*) of the 2006 ISDA Definitions Benchmarks Annex to the ISDA Benchmarks Supplement will apply to the relevant transactions. The

⁶ Please note that the 2006 Definitions and the 2020 Fallbacks Protocol use the terms “Fallback Index Cessation Event” and “Fallback Index Cessation Effective Date” with respect to Fallback Rate (SOR). These terms are equivalent to the terms “Index Cessation Event” and “Index Cessation Effective Date” which are used in respect of Fallback Rate (SOR) in the 2021 Definitions.

application of the “Priority Fallback” will result in a replacement benchmark applying in respect of Fallback Rate (SOR).

If the “Priority Fallback” (i.e. the fallbacks for Fallback Rate (SOR) set out in the IBOR Fallbacks Supplement and the IBOR Fallbacks Protocol) fails to provide a means of determining a replacement for Fallback Rate (SOR), or if neither the IBOR Fallbacks Supplement nor the IBOR Fallbacks Protocol applies to the transaction and no other bespoke “Priority Fallback” has been specified by the parties for that transaction,⁷ the provisions of Section 1.2 (*Consequences of a Benchmark Trigger Event*) of the 2006 ISDA Definitions Benchmarks Annex to the ISDA Benchmarks Supplement will apply and each party must seek to apply one or more “Alternative Continuation Fallbacks” prior to the “Cut-off Date” of the first Singapore business day immediately following the last publication date of the relevant tenor of Fallback Rate (SOR). The ISDA Benchmarks Supplement will not be of application to transactions entered into before the publication of the IBOR Fallbacks Supplement in respect of the permanent cessation of Fallback Rate (SOR).

⁷ Note that the ISDA Benchmarks Supplement is not designed for use with the 2021 Definitions.